

## **IMPORTANT NOTICE REGARDING FEDERAL CREDIT CARD PURCHASES**

As of **November 30, 1998**, the federal government has substantially changed its credit card program. **The I.M.P.A.C. purchase cards, the American Express/Discover travel cards, and the Wright Express fleet cards are no longer in use.** Instead, the General Services Administration (GSA) has entered into a series of contracts with a variety of card-issuing banks under a **new program named GSA SmartPay**. The GSA SmartPay program will be in effect for five to ten years. Samples of the new card designs are available on the Internet at <http://pub.fss.gsa.gov/services/gsa-smartpay>.

The majority of these new cards will be direct-billed to the federal government and will thus represent tax-exempt purchases for sales and lodgings tax purposes. However, there will be both a Visa and a MasterCard that will be billed to the federal employee (for later reimbursement).

Sales tax is not due on credit card purchases which are direct-billed to and paid for by the federal government. Lodgings tax is not due on charges for lodgings which are direct-billed to and paid for by the federal government.

Sales tax and lodgings tax are due on credit card transactions where the purchases or charges for lodgings are billed to and paid for by federal employees, who are then reimbursed by the federal government.

The following information is designed to assist you in determining whether or not tax applies to transactions paid for with GSA SmartPay cards.

Cards which are always direct-billed to the federal government and are therefore exempt from sales or lodgings taxes begin with the following digits.

8699 (Voyager)

5568 (MasterCard)

The following prefixes are issued on cards which are both direct-billed and individually billed. To know the difference you must look at the sixth digit.

4486 (Visa/MasterCard)

4716 (Visa/MasterCard)

5568 (Visa/MasterCard)

If the sixth digit is 0, 6, 7, 8, or 9; the card is direct-billed and the transactions are tax-exempt.

If the sixth digit is 1, 2, 3, or 4; the card is billed to the individual federal employee and the transactions are taxable.

**Summary:** State sales and lodgings taxes apply only against transactions made with federal Visa or MasterCard credit cards which begin with the prefix 4486, 4716, or 5568 and have the sixth digit as either 1, 2, 3, or 4. **However, please note the one exception shown below:**

The Department of Interior will use an integrated MasterCard issued by NationsBank. The same card will be used for both direct-billed and individually-billed purchases. The bank will sort the purchases during the billing process depending on the merchant's code. Purchases for office supplies and other procurements will be direct-billed to the federal government and, therefore, tax-exempt. Purchases for lodgings and restaurant food will be individually-billed to the federal employee and, therefore, taxable.

These cards will have the agency's federal tax exempt identification number (14-0001849) on the face of the card. The account numbers will begin "5568-16." Although it would appear that this number means the card is direct-billed to the federal government and all transactions would be tax-exempt; in fact, lodgings and restaurant charges will be individually billed to the federal employee and the transaction will be taxable. An additional complication is that the cards issued to the Bureau of Reclamation will be direct-billed for all purchases, including lodgings and restaurant charges. Accordingly, cashiers will have to recognize the Interior Department's federal tax exempt identification number to realize that purchases for lodgings and restaurant food are taxable (nothing on the card will tell the cashier that the card holder is with the Bureau of Reclamation, whose lodgings and restaurant charges are tax-exempt.) This system is expected to be in place for approximately one year at which time all purchases on this integrated card will be direct-billed and tax-exempt.

Questions concerning this notice may be directed to this office at the address or numbers show below.

**Alabama Department of Revenue  
Sales, Use & Business Tax Division**

**P.O. Box 327710  
Montgomery, AL 36132-7710  
Phone Number: (334) 242-1490  
Fax Number: (334) 242-8916**

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**Notices to Taxpayers**